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Message Text

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ACTION EA-09

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INFO AMEMBASSY MANILA
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SUBJECT: ROC ECONOMY RECOVERS SLOWLY IN 1975--PROSPECTS ENCOURAGING FOR 1976

REF: (A) TAIPEI A-017, (B) 75 TAIPEI A-249, (C) TAIPEI A-19

1. SUMMARY: ROC ECONOMY BEGAN TO RECOVER FROM EFFECTS OF WORLD-WIDE RECESSION DURING 1975. PRELIMINARY FIGURES INDICATE GNP GROWTH RATE OF 2.8 PERCENT IN REAL TERMS. INFLATION REMAINED A MINOR PROBLEM, WITH GNP PRICE DEFLATOR CALCULATED AT 1.5 PERCENT. TRADE ALUE DECLINED (11 PERCENT) BUT SO DID TRADE DEFICIT (54 PERCENT). VALUE OF FOREIGN INVESTMENT ALSO FELL (38 PERCENT), ALTHOUGH APPROVED INVESTMENT FROM US INCREASED SLIGHTLY (6 PERCENT) TO $41 MILLION. LEADING ECONOMISTS AND GROC OFFICIALS ARE MILDLY OPTIMISTIC ABOUT PROSPECTS FOR 1976 BASED MAINLY ON ANTICIPATED ECONOMIC UPTURN IN PRINCIPAL CUSTOMER COUNTRIES. TOTAL TRADE SHOULD INCREASE SUBSTANTIALLY, ESPECIALLY IN TEXTILES, ELECTRONIC PRODUCTS AND PLYWOOD. TARGETED GNP GROWTH FOR YEAR IS 6 PERCENT, WITH LARGEST CON-
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TRIBUTION EXPECTED FROM MANUFACTURING SECTOR. EMBASSY

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AGREES THAT OUTLOOK FOR 1976 REASONABLY GOOD, ALTHOUGH PROJECTED GROWTH IN AGRICULTURE OF 3.3 PERCENT APPEARS TOO OPTIMISTIC. ALSO, PROBLEM AREAS REMAIN, E.G., INFLATIONARY PRESSURES, FINANCIAL PROBLEMS ASSOCIATED WITH SHIPYARD AND STEEL MILL, AND DIFFICULTIES IN EXPANDING ECONOMIC RELATIONS WITH COUNTRIES WITH WHICH ROC DOES NOT HAVE DIPLOMATIC RELATIONS. END SUMMARY

2. ROC ECONOMY BEGAN TO SHAKE OFF EFFECTS OF THE WORLD-WIDE RECESSION DURING 1975. INDUSTRIAL PRODUCTION INDEX TURNED POSITIVE IN SECOND QUARTER AND CONTINUED IN UPWARD DIRECTION FOR REMAINDER OF YEAR, ACHIEVING 5.1 PERCENT INCREASE FOR YEAR AS A WHOLE. GNP GREW 2.8 PERCENT IN REAL TERMS FOR YEAR. MANUFACTURING INDEX WAS UP 3.8 PERCENT, WITH TEXTILES UP 25 PERCENT AND CHEMICALS UP 26.7 PERCENT. CONSTRUC-TION STILL ENJOYED A BOOM, INCREASING BY 19.4 PERCENT. DECREASES OCCURRED IN ELECTRICAL AND ELECTRONIC PRODUCTS AND METALS, BUT NO DETAILS ARE YET AVAILABEL. AGRICULTURE DID NOT PARTICIPATE IN THE GROWTH. INSTEAD IT EXPERIENCED DECLINE INPRODUCTION INDEX OF 2.4 PERCENT DUE TO POOR WEATHER AND SLUGGISH EXPORT SALES. FISHERIES WAS ONLY SECTOR SHOWING GROWTH, WITH INDEX UP 11.4 PERCENT. PRODUCTION IN OTHER COMPONENTS OF AGRICULTURAL SECTOR DECLINED, INCLUDING CROPS (DOWN 2.6 PERCENT), ANIMAL PRODUCTION (DOWN 9.4 PERCENT) AND FORESTRY (DOWN 10.5 PERCENT).

3. INFLATION REMAINED A MINOR PROBLEM, WITH WHOLESALE PRICES DOWN 5 PERCENT FROM 1974 WHILE CONSUMER PRICES WERE UP ONLY 5 PERCENT AND PRELIMINARY GNP DEFLATOR CALCULATED AT 1.5 PERCENT. INDUSTRIAL WAGES ROSE ABOUT 10 PERCENT. NEVERTHELESS, OVERALL MANUFACTURING COSTS INCREASED ONLY SLIGHTLY AND EXPORT SECTOR APPEARS TO HAVE REMAINED COMPETITIVE, EVEN WITH KOREA WHICH HAD TEMPORARY BENEFIT FROM DEFALUATION OF DECEMBER 1974. WHOLESALE PRICES FOR MANY MANUFACTURED PRODUCTS DECREASED DURING YEAR; FOR EXAMPLE, MACHINERY PRICE INDEX WENT DOWN 8 PERCENT AND CHEMICALS DOWN 10 PERCENT, MAKING IT POSSIBLE TO REDUCE EXPORT PRICES.

4. TRADE, WHICH PLAYS CENTRAL ROLE IN ROC ECONOMY, WAS OFF 11 PERCENT IN TOTAL VALUE BELOW 1974 ON A CUSTOMS BASIS, $11.25 BILLION VERSUS $12.6 BILLION RESPECTIVELY, BUT BROUGHT WITH IT THE COMFORT OF A 54 PERCENT REDUCTION IN TRADE DEFICIT WHICH LIMITED OFFICIAL USE

AMOUNTED TO ONLY $600 MILLION IN 1975 VERSUS $1.3 BILLION PREVIOUS YEAR. WITH FREIGHT AND INSURANCE CHARGES DEDUCTED FROM IMPORTS, TO MAKE THEM COMPARABLE TO EXPORT FIGURES WHICH ARE FOB, TRADE DEFICIT WAS ONLY ABOUT $300 MILLION. BOTH EXPORTS AND IMPORTS SLACKED OFF CONSIDERABLY EARLY IN 1975 BUT BY YEAR END HAD BEGUN TO PICK UP. EXPORTS, WHICH TOTALLED $5.2 BILLION, ROSE RAPIDLY IN LAST THREE MONTHS OF YEAR, REACH-ING A MONTLY VALUE OF $590 MILLION IN DECEMBER, A NEW RECORD.

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THIS WAS PARTICULARLY GOOD NEWS AS INCREASED FOREIGN SHIPMENTS PULL UP PRODUCTION ALMOST ON ONE-TO-ONE BASIS IN SEVERAL KEY INDUSTRIES. IN FACT, BOTH OF THE TOP EXPORT INDUSTRIES, TEXTILES AND ELECTRONIC PRODUCTS, HAVE BEEN REPORTING SOLID GAINS IN FOREIGN SALES SINCE BEGINNING OF FOURTH QUARTER. ACTUALLY, VALUE OF TEXTILE EXPORTS IN 1975 INCRASED MODESTLY, BY 1.9 PERCENT, IN CONTRAST TO GENERAL EXPORT PATTERN, AND CAPACITY UTILIZATION AND VLUME OF ORDERS HAS BEEN STEADILY IMPROVING. ELECTRONICS HAD A VERY SLOW YEAR OVERALL, WITH EXPORTS DOWN 27 PERCENT. ROC HAS HAD SOME SUCCESS IN DIVERSIFYING MARKETS, INCRASING SHARE OF EXPORTS SOLD T COUNTIRES OTHER THAN U.S. AND JAPAN FROM 48.9 PERCENT IN 1974 TO 52.5 PERCENT IN 1975 (REF A).

5. BECAUSE TRADE DEFICIT WAS MUCH MORE MANAGEABLE IN 1975, AND ROC CONTINUED RECEIVE SUBSTANTIAL AMOUNTS OF MEDIUM AND LONG TERM LOANS FOR DEVELOPMENT, OVERALL BALANCE OF PAYMENTS IN REASONABLY GOOD SHAPE, ALTHOUGH FINAL FIGURES NOT YET AVAILABLE. FOREIGN EXCHANGE ASSETS OF BANKING SYSTEM STOOD AT $1.83 BILLION AT YEAR END, DOWN LITTLE MORE THAN 1 PERCENT FROM DECEMBER 31, 1974.

6. APPROVED FOREIGN INVESTMENT WAS DOWN 38 PERCENT BELOW TOTAL IN PREVIOUS YEAR, AMOUNTING TO $118 MILLION VERSUS $189 MILLION, RESPECTIVELY. INVESTMEN WAS DOWN FROM OVERSEAS CHINESE BY 41 PERCENT (TO $47 MILLION) AND FROM JAPAN BY 40 PERCENT (TO $23 MILLION). US INVESTORS, ON THE OTHER HANDS, INCREASED THEIR APPROVED AMOUNT BY 6 PERCENT TO $41 MILLION VERSUS $38.7 IN 1974. LACK OF INTEREST FROM JAPAN DID NOT SEEM TO BE DUE TO SITUATION IN ROC BUT TO GENERAL FALLING OFF OF JAPANESE FOREIGN INVESTMENT.

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FM AMEMBASXY TAIPEI
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INFO AMEMBASSY MANILA
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7. AS YEAR APPROACHED END, LIQUIDITY SQUEEZE OCCURRED, AS IT HAD IN PREVIOUS YEAR, AND ON NOVEMBER 28 GROC TOOK SEVERAL MEASURES DESIGNED TO RELIEVE SITUATION. THESE INCLUDED ROLLING OVER OF IMPORT LOANS, SOFTER TERMS FOR EXPORT LOANS, AND CONTINUATION OF SEVERAL PROGRAMS INTRODUCED PREVIOUS YEAR FOR SAME PURPOSE (REF B). DUE MOSTLY TO HAVY BORROWING BY PRIVATE SECTOR FROM BANKS, MONEY SUPPLY INCRASED SUBSTANTIALLY, AND ON DECEMBER 31 STOOD AT NT$109.3 BILLION, 26.2 PERCENT HIGHER THAN 12 MONTHS YEARLIER. THIS RAPID INCREASE DURING PERIOD OF SLOW GROWTH IN PRODUCTION CONTINUES TO CONCERN GROC AND HAS CAUSED POLICY MAKERS TO BE WARY OF STIMULATIVE MEASURES.

8. EARLY IN FOURTH QUARTER THERE DEVELOPED CONSIDERABLE AGITATION FOR DEVALUATION OF NEW TAIWAN DOLLAR, BASED MAINLY ON LACKLUSTER PERFORMANCE OF EXPORTS UP UNTIL THAT TIME (BEFORE NOEMBER AND DECEMBER EXPORT DATA BECAME AVAILABLE). PREMIER TOOK FIRM POSITION AGAINST ANY CHANGE, PARTLY ON GROUNDS DEVALUATION WOULD HURT GENERAL POPULATION THROUGH INCRASED PRICES, AND WOULD BE OF ONLY TEMPORARY BENEFIT TO FEW LARGE EXPORTERS. PRESSURE FOR SUCH A CHANGE HAS NOW ABATED BUT DISCUSSION OF RELATIVE
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MERITS OF "FLOATING" TH NT DOLLAR CONTINUES IN ACADEMIC AND FINANCIAL COMMUNITIES.

9. OUTLOOK FOR 1976. LEADING ECONOMISTS AND GROC OFFICIALS ARE MILDLY OPTIMISTIC ABOUT PROSPECTS FOR 1976 BASED MAINLY ON ANTICIPATED ECONOMIC UPTURN IN PRICIPAL CUSTOMER COUNTRIES. TRADE IS EXPECTED TO INCRASE CONSIDERABLY, BUT PREDICTION MADE BY BOARD OF FOREIGN TRADE THAT TOTAL TRADE FOR 1976 WOULD REACH $14 BILLION SEEMS TOO OPTIMISTIC SINCE IT WOULD MEAN 24 PERCENT INCREASE OVER 1975 RESULTS. HOWEVER, CURRENT SITUATION IN SEVERAL INDUSTRIES DOES LOOK FAVORABLE, INCLUDING TEXTILES, ELECTRONICS, PLYWOOD (ESPECIALLY DUE TO GSP RESTRICTIVE IMPACT ON KOREA WHICH WILL REBOUND TO ROC ADVANTAGE), PLASTIC FOOTWEAR, ETC. ECONOMIC PLANNING COUNCIL (EPC) HAS SET GNP TARGET GROWTH IN REAL TERMS OF 6 PERCENT, WITH INDUSTRY GROWING THE FASTEST AT 7 PERCENT, THEN TRANSPORTATION AND COMMUNICATIONS AT 6.5 PERCENT , SERVICES AT 6 PERCENT AND AGRICULTURE AT 3.3 PERCENT. LATTER TARGET REVISED SLIGHTLY UPWARD FROM

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ORIGINAL 2.7 FIGURE AT RECENT INTER-AGENCY MEETING, PROBABLY UNDER PRESSURE FROM PREMIER. MANUFACTURING EXPECTED TO MAKE STRONGEST CONTRIBUTION TO INDUSTRIAL GROWTH, INCRASING PRODUCTION 8.3 PERCENT, THEN CONSTRUCTION AT 7.7 PERCENT, AND MINING LAST AT 1 PERCENT. ELECTRONICS IS ALREADY REHIRING STAFF AND IS EXPANDING PRODUCTION IN ESTABLISHED LINES SUCH AS TV SET ASSEMBLY. BIG NEWS, HOWEVER, IS INTRODUCTION OF NEW LINES AND PRODUCTS, SUCH AS COLOR T TUBES (FINAL DECISION TO GO AHEAD EXPECTED BY PHILIPS IN NEAR FUTURE), DIGITAL WATCHES AND NEW TYPES OF INTEGRATED CIRCUITS (SEE REF C, ITEM 16). WHILE GROC NOT EXPECTING LARGE INCREASE IN FOREIGN INVESTMENT THIS YEAR, THERE WILL PROBABLY BE CONTINUED INTEREST IN PETROCHEMICAL FIELD BY NEW FIRMS NOT YET COMMITTED HERE AND FURTHER EXPANSION OF EXISTING PLANTS, ESPECIALLY IN ELECTRONICS, SINCE ROC REMAINS VERY ATTRACTIVE BECAUSE OF LOW LABOR COST, GOOD INCENTIVES AND RECEPTIVE ATTITUDE OF GOVERNMENT. GROC WILL BE MAKING CONTINUED EFFORTS EXPAND AND DIVERSIFY EXPORTS THROUGH TRADE MISSIONUJ EXHIBITIONS, ETC. CLOSER ECONOMIC RELATIONS WILL BE SOUGHT WITH SELECTED COUNTRIES, ESPECIALLY SAUDI ARABIA AND SMALLER LATIN AMERICAN STATES.

10. COMMENTS: EMBASSY AGREES THAT PROSPECTS FOR ROC ECONOMY IN 1976 REASONABLY GOOD. BASIC CONDITIONS WITHIN COUNTRY
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ARE BALANCED AND STABLE, PROVIDING SOUND BASIS FOR EXPANSION TO EXTENT CALLED UPON BY FOREIGN MARKETS. TARGETS SET BY EPC FOR GROWTH THIS YEAR SEEM REASONABLE UNDER CIRCUMSTANCES EXCEPT IN AGRICULTURAL SECTOR WHERE 3.3 PERCENT EXPANSION "DETERMINED" BY INTERGOVERNMENTAL MEETING. THIS TARGET APPEARS TOO AMBITIOUS IN LIGHT OF PERFORMANCE IN 1975, ESPECIALLY SINCE IT INCLUDES PROJECTION OF RICE CROP OF 2.7 MILLION METRIC TONS, OR 8 PERCENT MORE THAN 1975. EXPERTS JUST DON'T SEE THAT MUCH ROOM FOR IMPROVEMENT. OTHER PROBLEM AREAS INCLUDE: A) INFLATIONARY PRESSURES CREATED BY HIGH GROWTH IN MONEY SUPPLY, BUT THIS PROBLEM MAY DISSIPATE WITH PASSAGE OF TIME AFTER NEW YEAR PERIOD; B) MASSIVE FINANCIAL BURDEN CREATED BY BAD FORTUNE EFFECTING TWO OF TEN MAJOR PROJECTS. SHIFTING DEMANDS OF SHIPPING BUSINESS HAVE LEFT HUGE NEW SHIPYARD ALMOST "HIGH AND DRY" AS DEMAND FOR SUPERTANKERS HAS WITHERED AWAY, AND STEEL MILL WILL, AT LEAST INITIALLY, BE VERY HIGH COST OPERATION COMING ON STREAM AT TIME WHEN IDLE CAPACITY ELSEWHERE IN WORLD WILL KEEP PRICE FOR COMPETITIVE PRODUCTS VERY LOW; AND C) NAGGING PROBLEM OF MAINTAINING AND STRENGTHENING ECONOMIC BONDS WITH THOSE MANY NATIONS OF WORLD WITH WHICH ROC HAS NO DIPLOMATIC TIES BUT WHICH MUST BE CULTIVATED AS MARKETS, SOURCES OF RAW MATERIALS AND POTENTIAL SOURCES OF INVESTMENT.
POPPLE

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